

## Message Text

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INFO OCT-01 ISO-00 PM-03 NSC-05 SP-02 SS-15 RSC-01 L-02

CIAE-00 INR-07 NSAE-00 MC-01 ACDA-05 EB-07 COME-00

OMB-01 TRSE-00 AID-05 PRS-01 CIEP-01 /067 W

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R 050828Z FEB 75

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 8227

SECDEF WASHDC

INFO CINCPAC

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JOINT EMBASSY/COMUSK MESSAGE

E.O. 11652: GDS

TAGS: MASS, KS

SUBJECT: FIGHTER AIRCRAFT CO-PRODUCTION IN KOREA

REF: CHJUSMAG 170013Z JAN 75

SUMMARY: FOLLOWING YEAR OF STUDY AND SIX MONTHS INTENSIVE EVALUATION, INCLUDING REVIEW OF INDUSTRIAL SURVEYS AND DETAILED PROPOSALS MADE BY THREE COMPETING U.S. AIRCRAFT COMPANIES, ROKG HAS DECIDED TO CO-ASSEMBLE 60 F-5E AIRCRAFT AND TO CO-PRODUCE SMALL PORTION OF THESE AIRCRAFT. COUNTRY TEAM BELIEVES BOTH SECURITY REQUIREMENTS AND ECONOMIC ARGUMENTS PROVIDE AMPLE JUSTIFICATION FOR THIS PROPOSED PROGRAM AND RECOMMENDS APPROVAL. END SUMMARY.

### 1. THE PROGRAM:

AS INDICATED REFTEL ROK MINISTRY OF DEFENSE HAS NOTIFIED US OF ITS INTENTION TO ASSEMBLE AND PARTIALLY PRODUCE 60 NORTHROP F-5ES IN KOREA. PROGRAM PLANNED BY ROK MND AND NORTHROP WOULD RESULT IN FIRST PRODUCTION ROLL-OFF IN ABOUT SEPTEMBER 1977 AND COMPLETION OF THE 60TH AIRCRAFT IN OR ABOUT MARCH 1980,

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PROVIDED ROKS PROMPTLY MAKE INITIAL PAYMENT OF 5 TO 10 MILLION DOLLARS TO COVER LONG LEAD PROCUREMENT.

2. PRODUCTION PLANS HAVE BEEN BROKEN DOWN INTO FIVE PHASES WITH ROK EFFORT INCREASING OVER COURSE OF PROGRAM. PROGRAM WOULD START WITH PHASE ZERO WHICH CONSISTS OF FABRICATION AND ASSEMBLY OF THE EXTERNAL PYLON-MOUNTED 275 GALLON FUEL TANKS. PHASE 1 WOULD INVOLVE FINAL ASSEMBLY AND PRODUCTION FLIGHT TEST. PHASE 2 WOULD CONSIST OF STRUCTURAL ASSEMBLY AND AIRCRAFT SYSTEMS INSTALLATIONS. DURING PHASE 3 THE ROK WOULD ACCOMPLISH ASSEMBLY OF THE FORWARD FUSELAGE ALONG WITH ASSEMBLY OF THE REST OF THE AIRCRAFT. PHASE 4 WOULD ADD DETAILED FABRICATION OF PARTS FOR THE FORWARD FUSELAGE.

3. OF THE TOTAL DOLLAR VALUE CONTENT OF F-5ES MADE IN THE U.S., NORTHROP ONLY MANUFACTURES ABOUT 30 PER CENT, PROCURES FROM VENDERS ABOUT 40 PER CENT AND THE USG FURNISHES THE REMAINING 30 PERCENT. TOTAL ROK INVOLVEMENT IN ASSEMBLY AND MANUFACTURE DURING PHASE 4 WOULD BE ONLY ABOUT 35 PERCENT OF THE NORTHROP PORTION OR ROUGHLY 10 PERCENT OF THE TOTAL AIRCRAFT VALUE. MAXIMUM IN-COUNTRY CONTENT WOULD BE REACHED BEGINNING WITH THE THIRTIETH AIRCRAFT AND WOULD MAKE SIGNIFICANT USE OF INDIGENOUS MANAGERIAL AND TECHNICAL SKILLS TO BE DEVELOPED VIA NORTHROP TECHNICAL ASSISTANCE. THE INDUSTRIAL SURVEY PERFORMED HERE BY A NORTHROP TEAM IN JUL-AUG 74 DETERMINED THAT SUCH A PROGRAM IS FULLY FEASIBLE.

4. TOTAL PROGRAM COST, INCLUDING TECHNICAL ASSISTANCE, AGE, SPARES AND ALLOWANCE FOR INFLATION, IS ESTIMATED TO BE \$296 MILLION, OF WHICH \$260 MILLION WOULD BE EXPENDED IN THE U.S. THE BALANCE OF \$36 MILLION WOULD COVER INDIGENOUS FACILITY CONSTRUCTION AND OPERATING AND LABOR COSTS.

5. SECURITY AND ECONOMIC JUSTIFICATION:

COUNTRY TEAM BELIEVES THAT SECURITY REQUIREMENT AND ECONOMIC CONSIDERATIONS PROVIDE AMPLE JUSTIFICATION FOR THIS PROGRAM. RATIONALE FOLLOWS:

6. SECURITY: SECURITY REQUIREMENT FOR ADDITIONAL AIRCRAFT HAS BEEN WELL ESTABLISHED. ORIGINAL ROK FORCES MODERNIZATION PLAN

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ENVISAGED TEN SQUADRONS OF FIGHTER/INTERCEPTOR AIRCRAFT FOR ROKAF, AND THIS GOAL WILL BE MET WITH DELIVERY 72 F-5ES CURRENTLY SCHEDULED UNDER MOD PLAN. POLICY DECISIONS IN MID 1973 EMPHASIZED EVEN GREATER ROK AIR DEFENSE CAPABILITY, HOWEVER, AND SECDEF SECURITY ASSISTANCE POM GUIDANCE OF NOVEMBER 1973 SHIFTED THE EMPHASIS ON MODERNIZING ROK ARMED FORCES FROM GROUND TO ACTIVE AIR DEFENSE FORCES TO PROVIDE THE CAPABILITY FOR DEFENSE WITH U.S. "LOGISTIC SUPPORT" ONLY. SECSTATE/ SECDEF SECURITY ASSISTANCE PLANNING OBJECTIVES OF FEBRUARY 1974 STATED THE OBJECTIVE WAS TO "ASSIST ROK IN ACHIEVING MODERNIZED

FORCES CAPABLE OF DETERRING/DEFENDING AGAINST NORTH KOREAN AGGRESSION WITH U.S. MATERIEL SUPPORT".

7. IN CONJUNCTION WITH THIS CHANGE IN SA OBJECTIVES, THREE STUDIES OF ROK AIRCRAFT REQUIREMENTS HAVE BEEN PERFORMED: THE 1973 KOREAN FORCES REQUIREMENTS STUDY; THE 1974 CINCPAC AIR DEFENSE STUDY; AND THE 1974 US/ROK AD HOC COMMITTEE STUDY. THIS LAST STUDY WAS PERFORMED PER AGREEMENTS MADE AT THE 6TH ROK/US SCM AT WHICH AIR DEFENSE WAS MUTUALLY AGREED TO BE OF TOP PRIORITY IN ROK FORCES' MODERNIZATION PLANNING. EACH OF THESE STUDIES CONCLUDED THAT ROK NEEDS IN EXCESS OF 72 (R SQUADRONS, UE 18 EACH) ADDITIONAL FIGHTER INTERCEPTOR AIRCRAFT OVER AND ABOVE THE ORIGINAL MODERNIZATION PLAN REQUIREMENTS.

8. WE UNDERSTAND THAT A FURTHER STUDY OF THE TOTAL NUMBER OF ROK AIRCRAFT REQUIRED IS UNDERWAY IN WASHINGTON AND THAT RESULTS ARE DUE BY MARCH 3. WE NONETHELESS URGE THAT PROCESSING OF THE F-5E CO-PRODUCTION PROPOSAL BEGIN PROMPTLY, PRIOR TO COMPLETION OF NEW STUDY, SINCE NORTHROP HAS INDICATED THAT EACH MONTHS DELAY IN INITIATION OF PROGRAM WILL ADD \$2 MILLION IN INFLATIONARY COSTS. GIVEN CONSISTENT RESULTS OF ALL THREE PREVIOUS STUDIES AND CONSEQUENT PROBABILITY CURRENT STUDY WILL NOT DIFFER MARKEDLY ON ADDITIONAL AIRCRAFT REQUIREMENT THERE APPEARS TO BE LITTLE LIKELIHOOD IMMEDIATE PROCESSING WILL PROVE TO BE WASTED EFFORT.

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9. ECONOMIC: ECONOMIC ARGUMENTS FAVORING THIS PROGRAM ALSO APPEAR COMPELLING. ALL INFORMATION AVAILABLE HERE SHOWS THAT CO-PRODUCTION IS IN THE BEST ECONOMIC INTERESTS OF BOTH UNITED STATES AND KOREA WHEN COMPARED TO ALTERNATIVE OF OUTRIGHT PURCHASE OF F-5ES FROM NORTHROP'S U.S. PRODUCTION FACILITY AT ESTIMATED COST OF \$215 MILLION.

10. PRIMARY ADDED BENEFIT FROM ROK VIEW POINT WILL BE MAJOR CONTRIBUTION TO ROK SELF SUFFICIENCY IN SECURITY AREA. WE HAVE CONTINUALLY EXPRESSED SUPPORT FOR RELATIVE SELF-SUFFICIENCY WHERE IT IS IN OUR MUTUAL SECURITY AND ECONOMIC INTERESTS, AND AT LAST TWO SCMS WE HAVE SUPPORTED DEVELOPMENT ROK DEFENSE INDUSTRY. 1975 POM GUIDANCE (PARA 10, STATE 15489) STATES THAT SA "RECIPIENT COUNTRIES WILL BE ENCOURAGED TO PLACE INCREASED RELIANCE ON THEIR QN RESOURCES TO MEET DEFENSE NEEDS."

11. MORE SPECIFICALLY BENEFITS TO ROKS OF CO-PRODUCTION AS AVERSE TO OUTRIGHT PURCHASE INCLUDE: (A) DESIRABLE TECHNOLOGICAL ADVANCEMENT, (EVEN THROUGH INDUSTRIAL AND TECHNOLOGICAL KNOW-HOW RELATIVELY UNSOPHISTICATED BY U.S. STANDARDS); (B) SIGNIFICANT GENERAL UPGRADING OF MANAGERIAL AND TECHNICAL SKILLS IN ASSEMBLY/FABRICATION, CONFIGURATION MANAGEMENT, QUALITY CONTROL AND PRODUCTION ENGINEERING THAT  
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WILL ENHANCE KOREAN NATIONAL INDUSTRIAL PROGRESS; AND (C) DEVELOPMENT OF AN INHERENT INDIGENOUS CAPABILITY FOR DEPOT-LEVEL MAINTENANCE OF F-5 SERIES AIRCRAFT (INCLUDING THOSE ALREADY ON HAND), AND OTHER MILITARY AIRCRAFT. IN ADDITION ROK ECONOMY WILL BENEFIT FROM GENERATION OF JOB OPPORTUNITIES FOR MORE THAN 1000 WORKERS.

12. U.S. ECONOMY WILL ALSO REAP GREATER BENEFIT FROM CO-PRODUCTION PROGRAM THAN FROM OUTRIGHT SALE. CO-PRODUCTION WILL MEAN (A) AN INCREASE OF \$45 MILLION IN FAVORABLE U.S. BALANCE OF PAYMENTS; (B) APPROXIMATELY THE SAME TOTAL IDENTIFIABLE MAN-YEARS OF EFFORT (ABOUT 8000) ON THE PART OF U.S. LABOR, PLUS AN INCREASED, ALTHOUGH NOT SPECIFICALLY IDENTIFIABLE, NUMBER OF U.S. JOBS GENERATED BY THE ADDED \$45 MILLION EXPENDITURE IN THE U.S.; AND (C) INCREASED INTEREST INCOME TO THE U.S. GENERATED BY THE \$45 MILLION DOLLARS OF ADDITIONAL FMS/DOD GUARANTY/COMMERCIAL CREDIT CONTEMPLATED FOR PROGRAM FINANCING. ON OTHER HAND WE SEE NO DANGER IN THIS CASE OF CREATING COMPETITIVE INDUSTRY.

13. POLITICAL: IN ADDITION TO ABOVE ARGUMENTS WE BELIEVE POLITICAL CONSIDERATIONS ALSO SUPPORT POSITIVE DECISION ON THIS PROJECT. WHILE WE HAVE BEEN CAREFUL TO CAUTION ROKS ON

REPEATED OCCASIONS NOT TO TAKE F-5E CO-PRODUCTION FOR GRANTED, FACT THAT REPUBLIC OF CHINA AND OTHERS ARE PRODUCING THESE AIRCRAFT HAS INEVITABLY LED ROKS TO CONCLUDE THEY ALSO WILL BE PERMITTED TO DO SO. DISAPPOINTMENT OF THEIR EXPECTATIONS WOULD BE SUBSTANTIAL BLOW TO THEIR GENERAL EXPECTATIONS REGARDING U.S. MILITARY ASSISTANCE SUPPORT AND OVERALL U.S. SECURITY COMMITMENT TO ROK.

14. FINANCING: ROKG PROPOSES TO FINANCE THE PROGRAM THROUGH A COMBINATION OF FMS CREDIT/DOD GUARANTEED LOANS, U.S. COMMERCIAL BANK LOANS AND CASH. DETAILS OF PROPOSED FUNDING BREAKOUT BY SOURCE AND FISCAL YEAR ARE STILL UNDER PREPARATION AND WILL BE FORWARDED AS SOON AS AVAILABLE. IF POSSIBLE, ROKG WOULD LIKE TO ALLOCATE \$5 MILLION OF EXISTING FY74 FMS CREDIT FUNDS TO START LONG LEAD PROCUREMENT AND RELATED ACTIVITIES AS SOON AS POSSIBLE. WE RECOGNIZE THAT SUCH ADVANCE COMMITMENT OF U.S. FINANCING MAY NOT BE CONSISTENT WITH CURRENT POLICY BUT GIVEN DESIRABILITY PROCEEDING AHEAD WITH THIS PROGRAM WE URGE  
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SYMPATHETIC CONSIDERATION OF REQUEST.

15. CONCLUSION: WE BELIEVE THAT PROPOSED F-5E CO-PRODUCTION PROGRAM IS IN OUR BEST NATIONAL SECURITY, POLITICAL, AND ECONOMIC INTERESTS AND IS FULLY CONSISTENT WITH THE U.S. INTER-AGENCY CO-PRODUCTION GUIDELINES PROMULGATED 6 SEPTEMBER 1973. EXPEDITIOUS APPROVAL IS STRONGLY RECOMMENDED.  
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## Message Attributes

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